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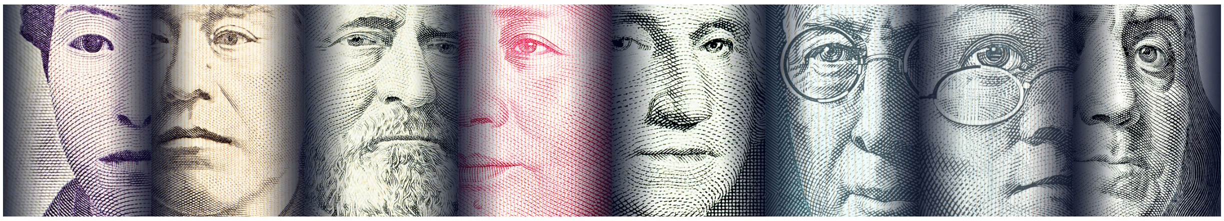


Economics & INSURANCE

MAPFRE Economics

Posts

Introduction

As we do every six months, we are presenting the new issue of the **Economics and Insurance** review. Just like previous reviews, this issue offers a summary of a selection of relevant topics related to economics and insurance that MAPFRE Economics has dealt with in its reports.

The 8th issue includes articles addressing current affairs, such as global economic growth outlooks and prospects for insurance markets, the evolution of insurance markets in Spain and Latin America in 2020, and a study of the vulnerabilities of a series of markets selected based on the construction of the **Emerging Risk Index (ERI).**

Global Economic Outlook and **Industry Outlook for the Insurance Market** are extracts taken from the 2021 Economic and industry outlook: fourth quarter perspectives report, which was published in October. The former includes an evaluation of the status of the global economy as well as a base and stressed scenario of the economic growth prospects in 2021 and 2022. Based on the described economic environment, the second article analyzes prospects for insurance markets and how inflation and exchange rates influence their development.

The synthesis of **The Spanish Insurance Market in 2020** presents an overall view of the insurance industry in 2020 and the performance of its main lines of business, as well as a preview of what is happening in 2021. In addition, the article **The Latin American Insurance Market in 2020** offers a panoramic regional view of the sector in the aforementioned fiscal year as well as the main structural trends such as penetration, density, depth and the estimate of the insurance protection gap.

Finally, the analysis gathered with the ERI offers an analytical and concise vision of the vulnerability factors that different emerging economies face in 2021 and 2022, taking into account the interaction of a set of variables related to financial markets, external vulnerability, private leverage, liquidity, and the level of economic activity.

We hope our readers find the articles in this issue interesting and useful to enhance their knowledge on the topics addressed.

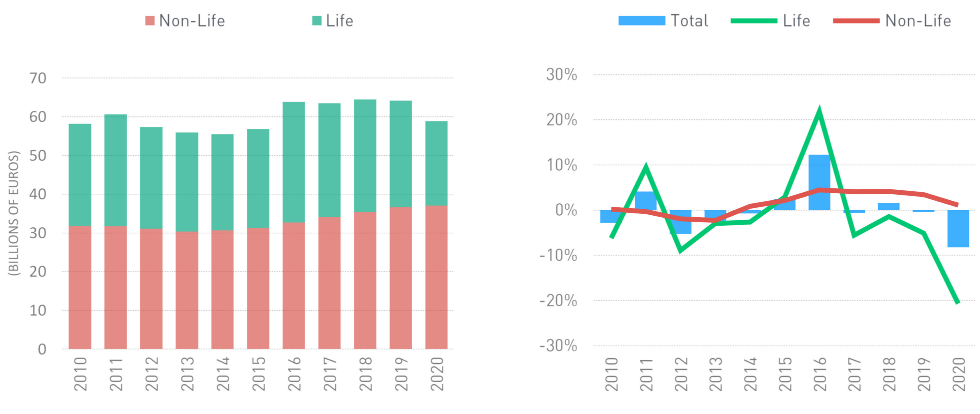
The Spanish insurance market in 2020

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
The Spanish insurance market in 2020
Madrid, Fundación MAPFRE, July 2021

The Spanish insurance industry remains immersed in an environment marked by the partial recovery of the national economy after the sharp contraction in GDP, which fell 10.8% in 2020. In Spain, the aggregate volume of insurance premiums in 2020 amounted to 58.89 billion euros, which represented an 8.2% decrease in business due to the steep decline in the Life segment, the most affected by the crisis (see Chart 1).

Chart 1
Trends in direct insurance in Spain, 2010-2020
(accrued direct insurance premiums, billions of euros; annual variation, %)

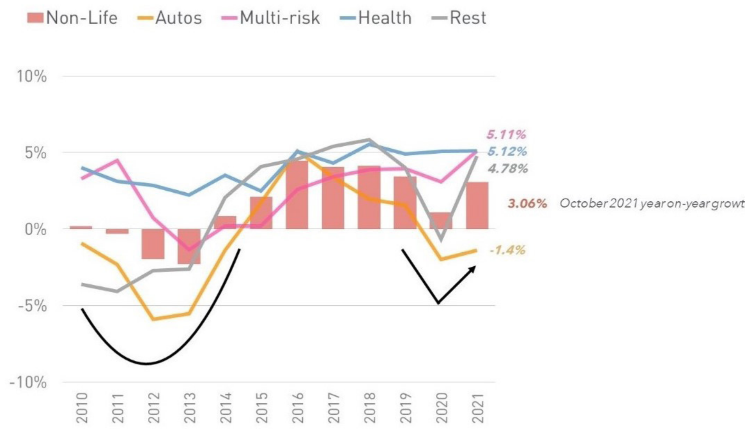


Source: MAPFRE Economics (based on ICEA data)

2021 Outlook

Analyzing a series that includes the first nine months of 2021, it can be observed in the **Non-Life insurance** segment that Auto insurance remains one of the areas most impacted by the economic crisis. It is also affected by exogenous factors that are reducing new registrations (see Chart 2), such as the chip shortage for new vehicle manufacture and increased tax pressure.

Chart 2
Trends in Non-Life direct insurance
(annual variation,%)



Source: MAPFRE Economics (based on ICEA data)

However, from the **profitability** perspective, it was a good year for this line of business. The combined ratio in **Auto insurance** improved significantly by 6.9 pp in **2020** (standing at 87.8%), a result of the exceptional situation caused by the lockdown measures implemented to address the COVID-19 pandemic. This caused consumers to use their vehicles less, resulting in a decrease in accident frequency (see Table 1). This situation started to normalize with the reopening process, putting the combined ratio above 90% in the first half of the year **2021**.

Table 1
Average frequencies and costs by coverage in Automotive insurance, 2019-2020
(frequency, %; average cost, euros)

Guarantee	Frequency (%)			Average cost (euros)		
	2019	2020	Variation (pp)	2019	2020	Variation (%)
Third-Party Liability	8.2 %	6.1 %	-2.18	1,744	1,783	2.3 %
Bodily injury	1.8 %	1.2 %	-0.54	4,542	4,880	7.5 %
Property	7.1 %	5.2 %	-1.85	892	911	2.1 %
Damage attributable to the policyholder	27.7 %	21.0 %	-6.65	787	810	2.8 %
Broken windshields	6.2 %	5.3 %	-0.88	310	327	5.6 %
Theft	0.6 %	0.5 %	-0.13	929	872	-6.1 %
Legal defense	1.5 %	1.2 %	-0.33	304	280	-7.9 %
Occupants	0.3 %	0.2 %	-0.08	999	1067	6.8 %
Fire	0.1 %	0.1 %	-0.01	3,132	3,167	1.1 %
Driver's license suspended	0.0 %	0.0 %	0.00	802	852	6.3 %

Source: MAPFRE Economics (based on ICEA data)

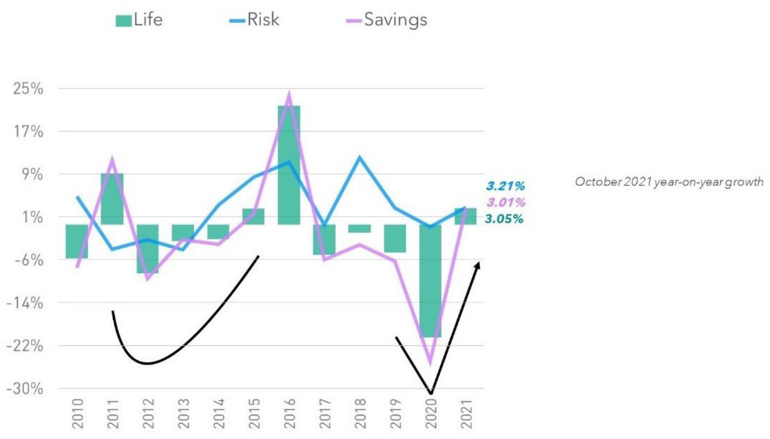
Health insurance, on the other hand, continues to show great resistance, with a 5.1% year-on-year increase in premiums in the first ten months of 2021 (5.1% in 2020 as a whole), helped by the collapse in the public health system in the worst moments of the pandemic. The percentages of insured population are increasing in all autonomous regions, but there has been a marked increase in health spending. This is due to the fact that many insured parties delayed non-urgent healthcare, and there is every indication that the combined ratio may increase significantly this year compared to 2020.

It is also noteworthy that business volume remained strong amid the crisis in **multi-risk insurance**, which continues to show remarkable growth (especially for industrial and home insurance). Data published for the first ten months of 2021 shows a 5.1% year-on-year increase (+8.2% compared to the same period in 2019). The growth was particularly strong in industrial multi-risk, which rose 8.1% (+14.2% compared to the same period of 2019).

Total premium volume in **Life insurance** reached 21.84 billion euros in 2020, a 20.7% decrease from the previous year. The declines affected the Savings business (-25%) to a far greater extent than the Risk business (-0.4%), reflecting the strongly negative impact of the economic crisis and the persistence of an environment where interest rates are low. Unit-linked products (in which the policyholder assumes investment risk) were an exception, growing 1.1%. Long-term care products also performed positively, with a 17.9% increase, although premium volume remains reduced in both cases. In terms of managed savings, technical provisions decreased by 0.3%, breaking the trend of more than a decade of growth and standing at 194.11 billion euros.

The most recent data for the first ten months of 2021 shows some recovery in Life insurance growth, with a 3.1% year-on-year increase in premiums, with Life risk insurance growing 3.2% and Life insurance savings up 3% (see Chart 3)

Chart 3
Trends in direct Life insurance
(annual variation, %)

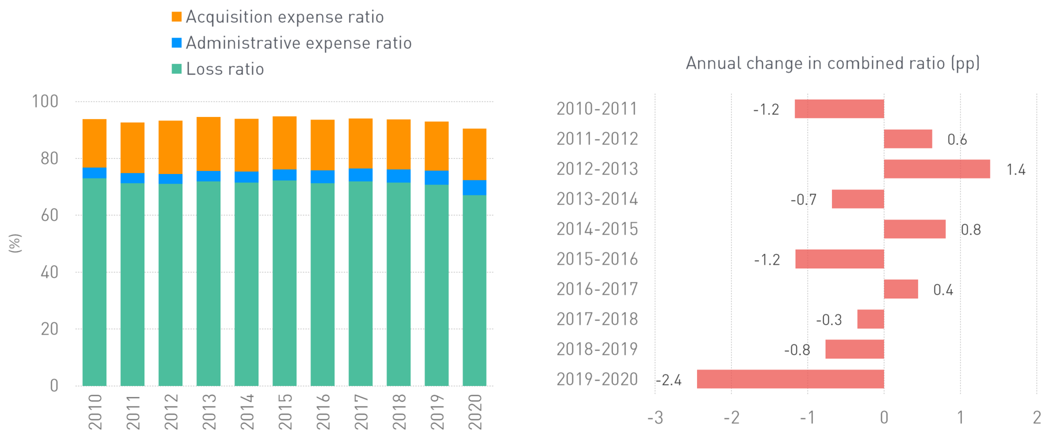


Source: MAPFRE Economics (based on ICEA data)

However, in terms of Life insurance savings growth, the base effect is considerable, and this area shows a 28.2% decrease compared to the same period of 2019 (this is not the case of Life risk insurance, which grew 3.45%). Risk insurance performance is closely associated with the recovery of private consumption and credit performance, as this type of insurance is largely linked to loan performance. On the other hand, the low-interest-rate environment continues to encourage savers to seek greater returns in exchange for higher risk, opting for alternatives for their savings, such as unit-linked products.

Regarding **profitability**, the combined ratio for the Non-Life insurance segment during 2020 was 90.5% (versus 92.9% the previous year) due to an improved loss ratio of -3.6 pp at 67%. However, the administrative expense ratio was 5.3% (losing 0.3 pp), while the acquisition expense ratio was 18.1%, growing by 0.9 pp (see Chart 4).

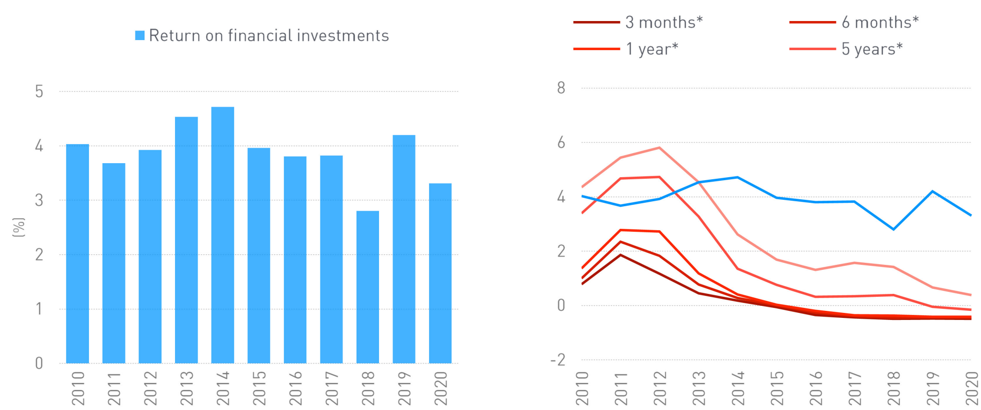
Chart 4
Trends in the Non-Life combined ratio, 2010-2020
(total combined ratio, %; annual change in combined ratio, pp)



Source: MAPFRE Economics (based on ICEA data)

Efforts to improve technical profitability in recent years are allowing the Spanish insurance sector to partially offset the loss of returns on investment portfolios due to the low-interest-rate environment (see Chart 5). **Total investment** by Spanish insurance companies amounted to 335.61 billion euros in 2020, representing a 1.9% increase compared to 2019.

Chart 5
Return on the insurance industry's financial investments, 2010-2020
(financial income/average investment, %; risk-free interest rate, %)



Source: MAPFRE Economics (with DGSFP data)

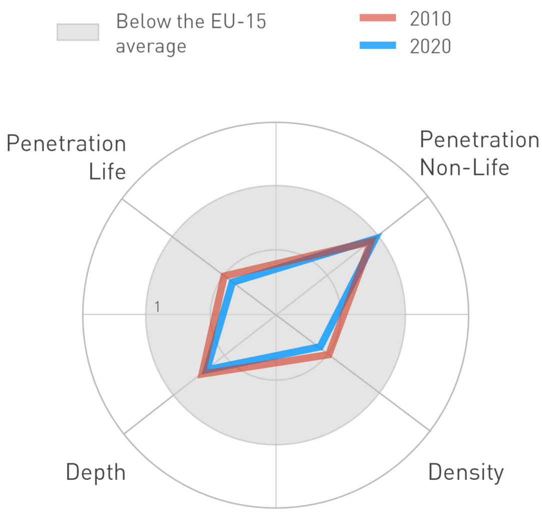
*Average annual Spanish Government bond yield of specified tenor.

Considering the relative return on equity **(ROE)** and return on assets **(ROA)**, 2020 saw an improvement in relative terms. Thus, the industry performed positively in terms of profitability, breaking the downward trend of the previous two years, with an ROE of 12% (10.9% in 2019) and an ROA of 1.6% (1.4% in 2019). Overall, the Spanish insurance sector produced a result of 5.8 billion euros in 2020, a 16.6% increase over the previous year.

In terms of the **penetration, density and depth indexes**, 2020 was a unique year due to the severe economic recession. In this environment, the insurance business declined less than the overall economy, and the downturn mainly affected the Life business. In any case, these indicators are still below the average of the 15 main EU economies, although the difference in penetration level in the Non-Life business was irrelevant and almost non-existent (see Chart 6).

Chart 6
Spain: Elements of structural market performance, 2010 and 2020

COMPARATIVE INDEX OF STRUCTURAL COEFFICIENTS* VS. EU-15 AVERAGE



Source: MAPFRE Economics

* Indexes calculated as the quotient between country values for the structural coefficient in question, and average values for the overall EU-15 market during the year indicated. The unit represents a performance equivalent to the EU-15 average.

A detailed breakdown of the different lines of business and structural trends over the last decade can be found in the report entitled *The Spanish insurance market in 2020*, compiled by MAPFRE Economics.

The Latin American insurance market in 2020

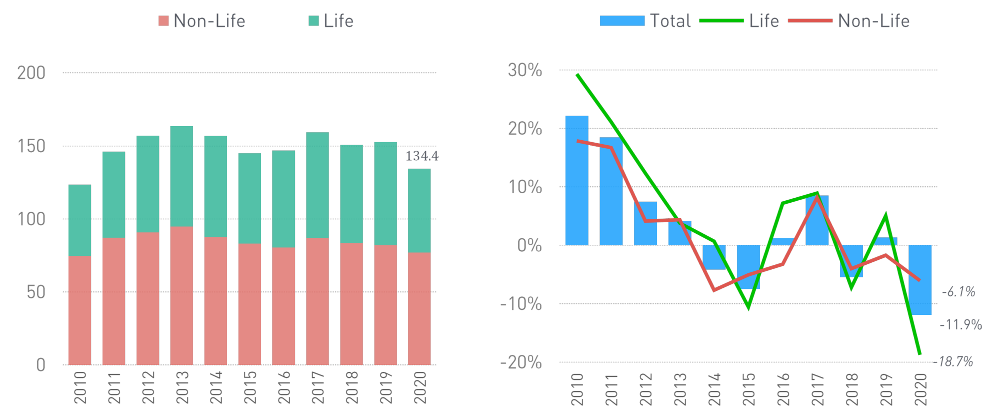
Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
The Latin American insurance market in 2020
Madrid, Fundación MAPFRE, September 2021

In October 2021, the International Monetary Fund (IMF) raised the full-year economic growth forecast for Latin America to 6.3% (compared to a 7% decrease in 2020), half a point above the forecast it announced in July, due mainly to the strong performance of oil, mineral and other raw material exports. This return to economic growth is also based on the reactivation of investments and external demand, underpinned by the recovery of the world's two largest economies, the United States (a major source of remittances) and China, its two main trading partners. The recovery in domestic consumption has also helped, but to a lesser extent while the job market remains below pre-crisis levels, which has exacerbated the region's endemic problems with low employment and productivity levels. On the other hand, inflation is rising and should close the year at an average of 9.7% (6.3% in 2020), coupled with the significant increase in fiscal deficits and debt-to-GDP levels in most of the region's economies.

The return to economic growth in Latin America and the Caribbean in 2021 is contributing to the recovery of their insurance markets, which fell sharply the previous year due to the severe economic crisis caused by the pandemic. Total insurance premiums amounted to $134.36 billion in 2020, down by 11.9%, largely due to the contraction of the Life business and amplified by the marked depreciation in exchange rates in the major markets. Premiums in the Life insurance segment thus fell sharply, dropping 18.7% in dollar terms (compared to 5.0% growth in 2019), while premiums in the Non-Life insurance segment dropped 6.1%, compared to a 1.7% decrease in 2019 (see Chart 1).

Chart 1
Latin America: evolution of growth in the insurance market
(premiums, billions of USD; annual nominal growth rates in USD, %)



Source: MAPFRE Economics (based on supervisory body data)

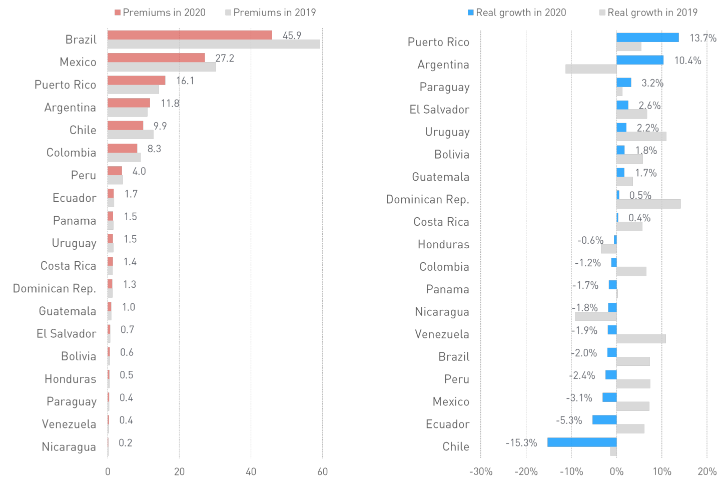
In general, **Life insurance** was severely affected **in 2020** by the ultra-accommodative monetary policy implemented by central banks across the region (with deep cuts in interest rates, among other measures). This complicated the Life savings and annuity insurance business, as the guaranteed return on marketed products had to be significantly reduced. Adding to this situation were the abrupt contraction in the economy and the movement to cash that occurs at times of high uncertainty, when economic players prefer to keep their savings in sight rather than entering into other types of medium or long-term investments (as has been the case during this crisis). The sharp decline in the Life business in Brazil, Mexico, Chile and Colombia in 2020 largely explained the marked downturn in this line of business at an aggregate level in the region.

However, **in 2021** the increase in inflation is forcing most central banks to tighten their monetary policies, raising interest rates. This is encouraging the **recovery of the Life business**, which is showing strong growth in the region's main markets (including Brazil, Mexico, Colombia and Peru) in a context of higher demand for financial products that help savers to protect themselves from the loss of purchasing power due to rising inflation.

Meanwhile, **the Non-Life segment in Latin America and the Caribbean in 2020** performed in line with this business segment in other parts of the world, with a significant decline in business volume in Auto insurance (representing 16.2% of the region's total premiums). This was partially offset by the Health business (representing 15% of total premiums), which is performing in a countercyclical manner, as is usual in major economic crises and particularly in this health crisis. In 2021, the return to economic growth in the region is encouraging the Non-Life business' recovery on an aggregate level.

Analyzing the performance of insurance business premiums in the local currencies of the respective markets (corrected for inflation), real declines were observed in 2020 in virtually all the region's major insurance markets (**see Chart 2**). The sharpest decreases were found in the Chilean market (-15.3%), followed by Ecuador (-5.3%), Mexico (-3.1%), Peru (-2.4%) and Brazil (-2.0%). However, some exceptions were observed, such as the significant growth in Puerto Rico (13.7%), due to the strong performance of health insurance, and Argentina (10.4%), although in the latter case, the transition to inflation accounting caused distortions in the comparison. The other markets that showed growth (El Salvador, Uruguay, Bolivia, Guatemala, the Dominican Republic and Costa Rica) experienced a marked slowdown. The sole exception was Paraguay, which showed real growth of 3.2% (this was one of the economies that were least affected by the pandemic).

Chart 2
Latin America: insurance market premiums and real growth
(billions of USD; real growth in local currency, %)



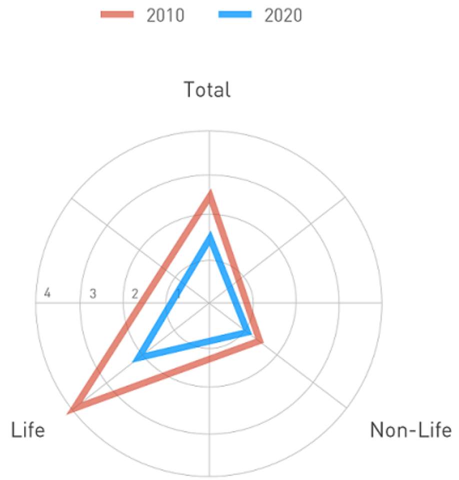
Source: MAPFRE Economics (based on data from supervisory bodies in the region)

In terms of profitability, in 2020, the aggregate net result of the Latin American insurance market stood at 9.32 billion dollars, down by 30.1% compared to the aggregate result of 2019 and breaking the growth trend observed in recent years. Thus, with the exception of Chile, Costa Rica, Guatemala, Paraguay, Puerto Rico and Uruguay (where profits grew), profit in dollars decreased in the region's markets compared to the previous year. This was strongly influenced by the depreciation of exchange rates along with factors related to their technical and/or financial profitability, as they all showed declines in terms of return on equity as well.

Among the **structural trend** indicators, the average penetration index (premiums/GDP) of the region's insurance industry stood at 3.1% in 2020, higher than the previous year's index by 0.17 percentage points (pp). The indicator improved in the Non-Life segment (1.8%, compared to 1.6% in the previous year) and worsened in the Life segment (1.3%, compared to 1.4% in the previous year), contrary to previous years, when the improvement came from the Life segment, which is less developed in the region. This is an atypical situation, and it was undoubtedly based in part on the strong contraction in GDP caused by the pandemic during 2020, as well as the resistance shown by some of the most important Non-Life lines of business in the region, particularly in the Health area.

If we analyze this indicator's performance over the past decade, there has been a 0.7 pp increase in penetration since 2010. Thus, for yet another year, the trend of increased insurance penetration in the Latin American and Caribbean region has been confirmed. This trend has been observed consistently over the past few decades, progressively closing the Insurance Protection Gap (IPG) compared to the penetration levels in developed markets, to which the Life insurance business and, to a slight extent, the Non-Life insurance business contributed (see Chart 3).

Chart 3
Latin America: the IPG
as a multiple of the actual market

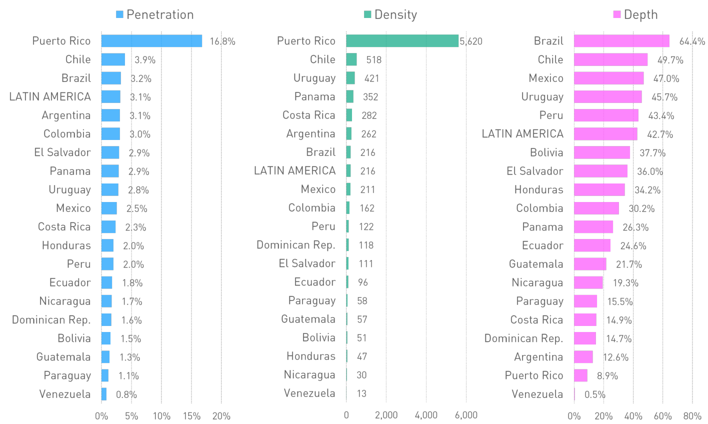


Source: MAPFRE Economics

The **IPG** for the Latin American insurance market in 2020 is estimated at 206 billion dollars, down by 16.7% (-41.3 billion dollars) from the previous year's estimate. The structure of the IPG over the last ten years shows no significant changes with respect to our previous report, confirming the predominance of Life insurance and, therefore, its greater growth potential. The potential insurance market in Latin America in 2020 (the sum of the actual insurance market plus the IPG) therefore stood at 340.4 billion dollars, 2.5 times larger than the current regional market.

Finally, the comparison of the different countries in the region, in terms of penetration, density and depth—indicators that measure the level of development of their respective insurance markets—is shown in Chart 4.

Chart 4
Latin America: penetration, density and depth indexes, 2020
(premiums/GDP, %; premiums per capita, USD; Life premiums/total premiums, %)



Source: MAPFRE Economics (based on data from supervisory bodies in the region)

The full analysis of the structural trends and behaviors of the region's insurance industry can be found in the report *"The Latin American insurance market in 2020"*, prepared by MAPFRE Economics.

Global economic outlook

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
2021 Economic and industry outlook: fourth quarter perspectives
Madrid, Fundación MAPFRE, October 2021

The latest global and regional measures, along with uncertainties regarding how the COVID-19 pandemic will continue to evolve, are seeing growth forecasts dialed back, with increasing concerns worldwide about consumer price levels, especially in emerging economies.

In this context, we are also seeing, among other effects, signs of deceleration in China's economy, as a result of adjustments in the real estate market (at the local level) caused by the Evergrande situation, and this is especially having effects on raw materials and emerging markets. We are also seeing an acceleration of inflation caused by a rise in global demand and energy restrictions, combined with supply disruptions derived from the negative effects of the COVID-19 pandemic on global value chains. This seems to be especially true in industries producing components and in global logistics, and all of this is affecting the capacity to meet the existing demand for manufactured goods.

In the **baseline scenario** considered in the report, the global economy will grow by 5.9% in 2021 and by 4.9% during 2022 (0.1 and 0.5 percentage points lower than predicted three months ago). Developed markets will make the most substantial contribution to global economic growth, while emerging markets will have to overcome significant challenges from the uneven effects of the pandemic and the international context (such as differing effects of inflation, deceleration in the Chinese economy and its effects on raw material imports and their financing terms, and the incomplete process of recapturing portfolio investment flows, which began with the pandemic and could affect exchange rates, etc.).

In this environment, **global recovery** is facing supply bottlenecks and limitations derived from the energy crisis, problems with logistics at ports, inability to perform timely restocking in the wake of a return to relatively normal global trade, etc. All of this will have effects on global manufacturing output, as well as on commerce, restricting the ability to achieve full recovery and pushing it back to 2023.

In conclusion, the baseline scenario considers very significant factors, such as inflation, which is expected to be persistent but not permanent (inflation will be transitory, and although its effects will fade more slowly than predicted a year ago, it seems that it will not alter the forward guidance on monetary policy being issued by central banks worldwide). The effects of inflation on disposable income will be offset by savings being freed up, thanks to the relaxation of the restrictions imposed to control the pandemic, and by more optimistic outlooks on the future evolution of COVID-19. Global monetary conditions will remain very relaxed during 2022, and the monetary normalization pursued by central banks in developed countries will temper the pace of asset acquisition, without changing expectations on interest rates. All of this is contributing to an abundance of liquidity. In developing countries, on the other hand, monetary policy will be more variable, conditioned in many cases upon the political economy rather than economic policy.

In contrast, in the **stressed scenario** we would see a market taken by surprise by a more aggressive monetary reaction, caused by inflation that proves to be more persistent, giving rise to a certain nominal volatility and less favorable financing terms, and with the potential for domestic demand being affected by rising prices. This scenario could lead to a decrease in global GDP growth figures by approximately one half of a percentage point. Despite all of this, the scenario is not one with risk of a recession.

In conclusion, and after an **overall risk assessment**, we find, among other factors, a global geopolitical framework that will remain stable with upward and downward rebalancing. In terms of economic policy, the main central banks see inflationary perspectives based on the idea of a limited and transitory increase, but that could be reduced as global supply chains face certain obstacles. Among these are shortages of certain goods involved in initial production phases, such as raw materials and energy, and the accumulation of bottlenecks. At a macroeconomic level, the Chinese economy is starting to show the first signs of fragility, due in part to a more complex environment both nationally and internationally. With regard to global debt, the figures for the second quarter of 2021 show a slight decrease in the debt to GDP ratio, standing at 353.4%. The growth was led by emerging economies, with an increase of $3.5 trillion, compared to $1.3 trillion in developed economies. Progress with COVID-19 vaccination has also enabled the partial relaxation of restrictions worldwide. This is especially the case in developed countries, while occurring to a lesser degree in countries with emerging economies.

Baseline and Stressed Scenarios: Gross Domestic Product
(annual growth, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	21017	2018	2019	2020(e)	2021(f)	2022(f)	21017	2018	2019	2020(e)	2021(f)	2022(f)
United States	2.3	2.9	2.3	-3.4	5.8	4.3	2.3	2.9	2.3	-3.4	5.0	0.3
Eurozone	2.8	1.8	1.5	-6.5	5.0	4.3	2.8	1.8	1.5	-4.5	6.7	1.2
Germany	3.0	1.1	1.1	-4.9	3.1	4.4	3.0	1.1	1.1	-4.9	2.2	0.8
France	2.3	1.8	1.8	-8.0	6.3	3.9	2.3	1.8	1.8	-8.0	6.0	3.0
Italy	1.7	0.8	0.4	-9.0	6.2	4.6	1.7	0.8	0.4	-9.0	5.8	1.9
Spain	3.0	2.3	2.1	-10.8	5.7	6.2	3.0	2.3	2.1	-10.8	6.9	2.9
United Kingdom	2.1	1.7	1.7	-9.7	6.9	5.5	2.1	1.7	1.7	-9.7	6.5	2.6
Japan	1.7	0.4	0.0	-4.7	2.6	2.8	1.7	0.6	0.0	-4.7	1.9	-0.3
Emerging markets	0.8	4.5	3.7	-2.1	6.6	5.1	4.8	4.5	3.7	-2.1	6.0	2.5
Latin America[1]	1.3	1.2	0.2	-7.0	6.3	3.1	1.3	1.2	0.2	-7.0	5.9	1.8
Mexico	2.3	2.2	-0.2	-8.5	6.2	3.0	2.3	2.2	-0.2	-8.5	6.0	-0.1
Brazil	1.6	1.7	1.4	-6.6	5.2	1.7	1.6	1.7	1.4	-6.6	6.8	-1.0
Argentina	2.8	-2.4	-2.0	-9.9	7.6	2.4	2.8	-2.6	-2.0	-9.9	7.0	-1.3
Emerging markets, Europe[2]	4.1	3.4	2.5	-2.0	6.0	3.6	4.1	3.4	2.5	-2.0	5.0	1.1
Turkey	7.5	3.0	0.9	1.8	9.0	3.0	7.5	3.0	0.9	1.8	8.5	-0.8
Asia-Pacific[3]	6.6	6.4	5.4	-0.9	7.2	6.3	6.6	6.4	5.4	-0.9	6.8	4.3
China	4.9	4.7	6.0	2.3	8.0	5.4	6.9	6.7	6.0	2.3	7.6	3.1
Indonesia	5.1	5.2	5.0	-2.1	3.3	6.3	5.1	5.2	5.0	-2.1	2.9	2.5
Philippines	4.9	6.3	6.1	-9.6	3.6	7.1	6.9	6.3	6.1	-9.6	2.9	3.9
Global	3.8	3.6	2.8	-3.1	5.9	4.9	3.8	3.6	2.8	-3.1	5.5	4.6

Source: MAPFRE Economics

[1] Argentina, Brazil, Chile, Colombia, Mexico, Peru; [2] Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3] Association of Southeast Asian Nations (ASEAN).
Forecast end date: October 18, 2021.

Click here to access the interactive version of this information

The full analysis can be found in the report entitled *2021 Economic and industry outlook: fourth quarter perspectives*, prepared by MAPFRE Economics.

Industry outlook for the insurance market

Author: MAPFRE Economics

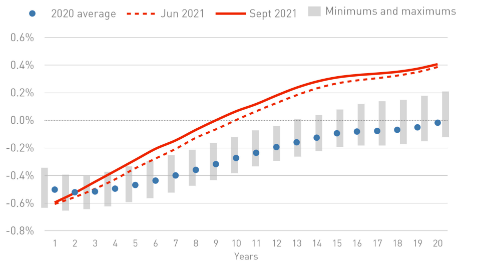
Summary of the report's conclusions:
MAPFRE Economics
2021 Economic and industry outlook: fourth quarter perspectives
Madrid, Fundación MAPFRE, October 2021

The outlook for the insurance markets worldwide continues to follow a trend towards recovery, in line with the return of economic growth that will take global GDP in 2021 above pre-pandemic levels. This is supported by strong growth in the USA (due to the significant fiscal and monetary stimulus packages implemented) and in Asian countries with developing and emerging economies. The predictions for Latin America are also improving, given the strong performance shown by some of the region's largest economies, and this is having a favorable impact on the primary markets for its insurance industry. However, there are signs of a loss in growth momentum, and many economies will have to wait until at least 2022 before regaining the pre-pandemic levels. This means that their insurance markets could experience an uneven recovery, and one that takes longer to emerge.

Inflationary pressures that many countries are facing due to bottlenecks in the supply chain (which is still unable to keep up with rising demand due to the reopening of the economy) and the sharp rise in energy prices may negatively impact insurance companies' profitability, putting pressure, in turn, on insurance prices. The central banks in many countries have announced or are starting to consider a gradual withdrawal of their ultra-lax monetary policy measures in the face of rising inflation and improving economic conditions. This has been reflected in the risk-free interest rate curves produced by the European Insurance and Occupational Pensions Authority (EIOPA).

Thus, in the **Eurozone** interest rate curve (see Chart 1), a slight increase can be seen in all parts of the curve. This is also the case in the **United States** (see Chart 2), although in the shorter maturities, they remain well below the highs reached the previous year, an indication that broad monetary stimulus continues there. However, a slight rise in rates can also be seen in the middle and long parts of the curve, which are clearly above the highs of the previous year, gaining some slope. In any case, the interest rate environment remains unfavorable for the sale of savings products due to low short-term interest rates and expectations that further increases may occur that affect all parts of the curve. However, the stock markets have performed better during the current crisis, favoring the development of the life insurance investment business, especially in the United States, where these types of products are more common.

Chart 1
Eurozone: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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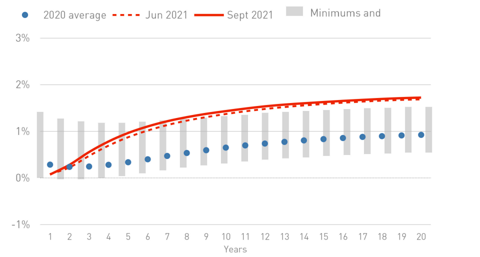
Chart 2
United States: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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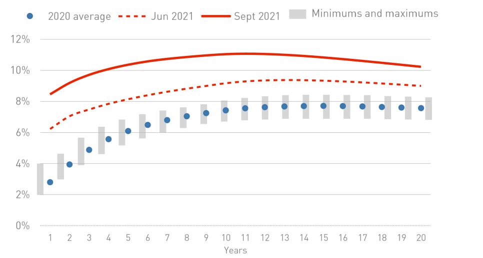
Now that the extreme uncertainty generated by economic operators' movement towards cash positions during the acute phases of the pandemic has been overcome, the life insurance business is being favored by households and companies' increased appetite for protection against the risk of death. It is also being boosted by financial products that allow them to hedge against inflation and obtain a return on their savings, which encourages the development of life insurance products in which the policyholder assumes the investment risk. The strong performance of the major equity market indexes worldwide is contributing to their development.

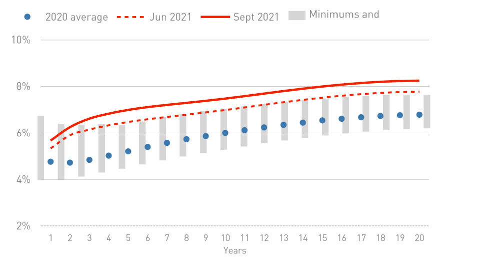
At the same time, some emerging countries have already had to withdraw some of the economic support measures they had implemented. In some cases, there has even been a shift towards a restrictive monetary policy, with sharp rises in interest rates to counter inflation that has proven to be more persistent than expected while also substantially exceeding inflation targets, such as in **Brazil and Mexico** (see Charts 3 and 4). These rate increases are generating a more favorable environment for development of the Life line of business, for savings products and traditional lifetime annuities. In this sense, the Life insurance markets in Brazil and Mexico are experiencing significant growth in business volume, which is also influenced by stronger demand for protection against the risk of death and illness as a result of the pandemic.

Chart 3
Brazil: risk-free yield curve
(%)



[redacted]

Chart 4
Mexico: risk-free yield curve
(%)



Source: MAPFRE Economics (based on EIOPA data)

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In Spain, the insurance industry continues to show significant growth, for both Life and Non-life products. However, for life insurance, the basic effects of the pandemic are quite notable, with pre-crisis figures still seeming a long way off. Equities are beginning to be seen as an alternative form of protection against an environment of low interest rates and rising inflation, and this is encouraging development of life insurance products where the policyholder assumes the investment risk. Products of this type are gaining importance, with a wide range of offerings now being launched onto the market. For the Non-life segment, the pre-crisis levels were never lost, and it is now showing significant year-on-year growth as economic recovery continues (except for some specific lines of business).

Full analysis of the economic and industry perspectives with additional information and interactive charts on the Eurozone, Germany, Italy, Spain, the United Kingdom, the United States, Brazil, Mexico, Argentina, Turkey, Japan, China and the Philippines can be found in the report entitled *2021 Economic and industry outlook: fourth quarter perspectives*, compiled by MAPFRE Economic.

Emerging vulnerability analysis: evolution of the Emerging Risk Index (ERI)

Author: MAPFRE Economics

In the first half of 2021, the global economy decelerated due to the spread of new coronavirus variants and the need to take more restrictive measures to contain them, even in the most advanced economies. In this context, the uneven progress of vaccination campaigns between developed and emerging countries throughout the first half of the year, in favor of the former, allowed some major economies to gradually reopen, providing a respite to the global economy.

Last year was strongly marked by the COVID-19 pandemic; however, the rapid fiscal and monetary adjustment in response to the shock helped to stabilize its impact. Thus, once the first epidemiological phase was over, the capacity for recovery was higher in the countries with a lower need for financing of their financial accounts and with a current account surplus stimulated by rising raw material prices. This generated a divergence between countries with less control over the pandemic and more dependence on external flows, slowing the pace of recovery of their activity levels.

In this context, the countries with a greater degree of integration into global supply chains benefited from the reactivation of these chains, as well as a slight improvement in external demand. Along these lines, pre-pandemic factors like macroeconomic strength and fiscal savings are differentiators for countries' performance, as they determine how well different economies can cope with high levels of public spending and borrowing caused by the COVID-19 crisis. For this reason, even countries that benefited from the rise in raw material prices have risen on the Emerging Risk Index (ERI) due to their fiscal accounts lacking robustness.

Although the analysis reflected in the ERI uses data from 2020, it is very much forward-looking, as it highlights weaknesses that will affect the development of nominal stability in emerging countries throughout 2021 and 2022, and will show the differential effects of the economic disruption caused by the pandemic.

Main conclusions from the analysis

The study of the vulnerabilities of a number of selected markets through the construction of the ERI has allowed the following general conclusions to be drawn (see Charts A to G):

Chart A
Selected markets: risk profiles and emerging risk index* (ERI)

	Thresholds		Thresholds									
	Emerging	Developed	Argentina	Brazil	China	Colombia	Philippines	Indonesia	Mexico	Peru	Russia	Turkey
2027 potential GDP growth	3	1.5										
Potential inflation	10	2										
EMBI	8%											
CDS	20%	10%										
CA % GDP	1	1										
NIIP % GDP	-40	-40										
External Debt CB ST % GDP	4%	4%										
External Debt CB LT % GDP	1%	1%										
External Debt Governments ST % GDP	2%	2%										
External Debt Governments LT % GDP	34%	34%										
External Debt Corporate ST % GDP	8%	8%										
External Debt Corporate LT % GDP	27%	27%										
External Debt Banks ST % GDP	12%	12%										
External Debt Banks LT % GDP	12%	12%										
External Debt Total % GDP	30%	30%										
External Debt Total ST % GDP	6%	6%										
External Debt Total LT % GDP	24%	24%										
Total Lending to Non-Financial Sector	20	90										
Lending to Government	20	90										
Lending to Households	20	90										
Lending to Non-Financial Corporations	20	90										
Lending to Non-Financial Private Sector	20	90										
Leverage	10	8										
LC GDP Growth (Nominal)	3	1.5										
NPL	7	7										
CPI	3	1.5										
CB Rate (benchmark interest rate)	6	3										
Money supply/Reserves	3	6										
External debt/Exports	1	3										
ERI 2020			67.89	35.26	28.01	7.92	29.89	10.12	18.03	10.12	24.31	46.44
ERI 2019			71.35	32.07	26.29	8.52	30.48	11.85	22.35	11.85	19.99	42.04

Variables within the threshold
Variables with slight deviations
Variables with severe deviations

Source: MAPFRE Economics (estimates based on data from OEF, Haver, IMF, BIS, Bloomberg and World Bank)
* The variables used to construct this index are assessed in relation to certain sustainability thresholds. Deviations from these thresholds result in imbalances and are weighted to construct an index ranging from 0 to 100.

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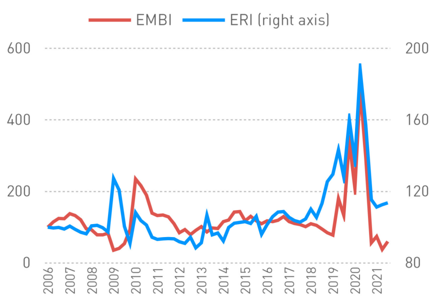
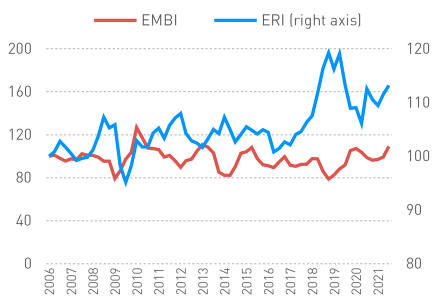
- In the case of **Argentina**, there is a slight improvement in the indicator, highlighting (i) the recovery of economic activity, (ii) the successful external debt renegotiation process, (iii) the accumulation of positive results in the current account, and (iv) a more contained fiscal dynamic. However, certain latent structural vulnerabilities remain, (i) limited access to external borrowing, (ii) local currency instability, (iii) the need for a budgetary rebalancing in line with IMF programs, and (iv) a certain trend toward current imbalances in its balance of payments. Meanwhile, in **Turkey**, the indicator has continued to deteriorate, with imbalances escalating in (i) the current account, (ii) high external debt, mainly in dollars, (iii) high inflation rates and (iv) the financial sector and its channeling capacity towards the non-financial private sector.

Chart B
Argentina: ERI vs. EMBI



Source: MAPFRE Economics (own estimates and data from OEF, Haver)

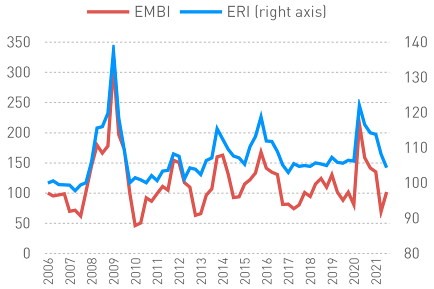
Chart C
Turkey: ERI vs. EMBI



Source: MAPFRE Economics (own estimates and data from OEF, Haver)

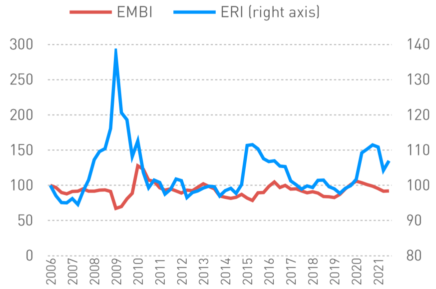
- The economies of **Peru** and **Russia**, on the other hand, show a slight deterioration on the ERI compared to the previous report, although to a lesser extent than reflected in the movement of the EMBI. In **Peru**, the greatest risk arises from the external debt acquired during the pandemic, the lower coverage of tax savings and the high levels of loan guarantees by the government in relatively short terms. In **Russia**, the main concern is the deterioration of the financial system's average lending in terms of NPLs, although this effect is currently offset by its improved external position due to the rebound in global energy demand and oil prices, having a positive impact on its balance of payments.

Chart D
Peru: ERI vs. EMBI



Source: MAPFRE Economics (own estimates and data from OEF, Haver)

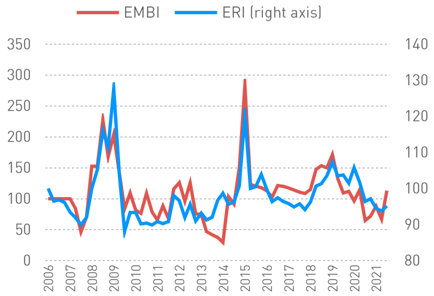
Chart E
Russia: ERI vs. EMBI



Source: MAPFRE Economics (own estimates and data from OEF, Haver)

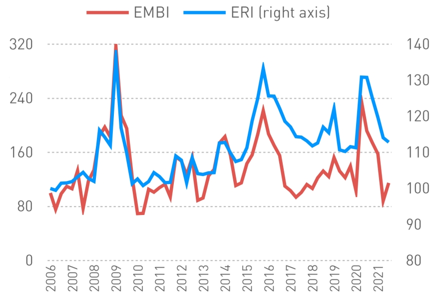
- Finally, in the economies of **Indonesia** and **Colombia**, although the risks remained similar to the year before the pandemic, the situation has highlighted growing vulnerabilities in Colombia and some resilience in Indonesia, which has a slightly stronger position. The **Colombian economy** continued to show a large current account deficit despite the effect of higher raw material prices. In addition, due to the failure in terms of taxation and especially tax reform, the gap between the EMBI and the scoring remains wide. In the case of **Indonesia**, lending to the non-financial sector and high levels of external debt continued to increase throughout 2020, albeit at a moderate pace. In this context, there is an increased risk of contagion from China's poorer performance, exposing the economy to higher risk premiums whose impact is reflected in the EMBI.

Chart F
Indonesia: ERI vs. EMBI



Source: MAPFRE Economics (own estimates and data from OEF, Haver)

Chart G
Colombia: ERI vs. EMBI



Source: MAPFRE Economics (own estimates and data from OEF, Haver)

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